Dear Mr. Wong,

Verification of Identity of Applicants for Business

Recently, the Commercial Crime Bureau ("CCB") of the Hong Kong Police Force has brought to our attention several incidents involving the use of shell companies as vehicles for bogus investment schemes. These shell companies were able to open accounts with banks in Hong Kong by means of "Intermediary Introduction Certificates" submitted through secretarial companies or company formation agents. It appears, however, that in some cases, the copies of the identity documents certified and submitted by the secretarial companies as intermediaries for account opening purposes had, in reality, not been properly verified by the secretarial companies or company formation agents concerned against the original documents of identity. This raises the concern that criminals might be able to submit false copies of documents to open bank accounts in Hong Kong for illegal and money laundering purposes. It is possible that AIs could as a consequence become vehicles for financial crime and consequently suffer reputational damage.

Customer identification is an essential element of "know your customer" standards. The objectives of the standards are to guard against the banking system being used to launder the proceeds of crime and to protect banks from reputational, operational and legal risks. Under paragraph 4.1(a) of the Guideline on Prevention of Money Laundering issued by the HKMA under section 7(3) of the Banking Ordinance ("the Guideline"), AIs are required to make reasonable efforts to determine the customer's true identity, and have effective procedures for verifying the bona fides of new customers. Under paragraphs 5.16 to 5.22 of the Guideline, AIs should obtain satisfactory evidence of the identity of beneficial owners, directors and authorized signatories of shell companies as well as customers introduced by intermediaries (other than intermediaries referred to in paragraphs 5.21 (a) and (b) of the Guideline).
Whilst it is permissible under the existing Guideline for AIs to rely on the “Intermediary Introduction Certificate” issued by intermediaries, confirming satisfactory evidence of the identity of the underlying principals and the source of funds being used to open the accounts, the fact remains that it is the ultimate responsibility of AIs to know their customers and their business. Before relying on intermediaries to verify the true identity of the new customers on their behalf, AIs should conduct proper due diligence on the intermediaries to ensure that they are reliable and conducting their business in a proper manner and in good faith. Moreover, AIs should satisfy themselves that the intermediaries themselves have adequate “know your customer” standards and effective procedures for verifying the bona fides of customers. In addition, AIs should be careful in reviewing the documentation provided by intermediaries and, in case of doubt, should consider seriously whether a business relationship should be established with such customers.

We would be pleased if you could draw the attention of your member institutions to the above developments and advice and remind them to review their current policies, practices and procedures for opening accounts by intermediaries and verification of customer identification to ensure that they are in compliance with the Guideline.

I am writing in similar terms to the Chairman of the DTCA.

Yours sincerely,

[Signature]

D T R Carse
Deputy Chief Executive